

**Congress of the United States**  
**Washington, DC 20515**

March 14, 2016

The Honorable Norman Bay  
Chairman  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

Gordon van Welie  
President and CEO  
ISO-New England  
One Sullivan Road  
Holyoke, MA 01040

Dear Chairman Bay and Mr. van Welie,

We are writing to express our continued concern with the condition of the electricity sector in New England. We believe that the current Forward Capacity Market (FCM) structure and policies do not provide electric reliability at just and reasonable rates for consumers in the region, especially in light of two December filings by ISO-New England (ISO-NE) with the Federal Energy Regulatory Commission (FERC).

The recent Forward Capacity Auction (FCA) 10 cleared capacity region-wide at approximately \$3 billion. While these clearing prices were the result of a “competitive auction” according to ISO-NE, the results are roughly equal to FCA8, an auction that triggered administrative pricing rules due to lack of competition. They are also triple the current capacity payments derived from the auctions prior to FCA8. While it is true that prices in FCA10 decreased 25 percent, FCA9 was a record \$4 billion. ISO-NE’s characterization that FCA10 was a successful, competitive auction that resulted in lower prices from the previous year is troubling, given the overall cost to ratepayers still far exceeds the first seven auctions. We are unconvinced that charging ratepayers billions of dollars a year in advance to secure future generation requirements meets the just and reasonable standard.

In addition to the results of FCA 10, two December filings by ISO-NE with FERC indicate the FCM could have resulted in massive price increases for ratepayers due to inaccurate or incomplete accounting of renewable resources and transmission system upgrades, and the potential ability for sophisticated actors to exercise market power.

ISO-NE’s December 1, 2015 filing indicates the ISO’s Installed Capacity Requirement (ICR), the overall regional generation target, for both FCA8 and FCA9 were inaccurate or incomplete, and arguably created the shortfall in both auctions that resulted in drastic price increases compared to all previous FCAs. In the filing, ISO-NE concludes that based on newly acquired data, the initial ICR for both FCA8 and FCA9 were too high due to a failure to account for an increase in behind-the-meter solar and improvements to the transmission system, respectively. The shortfalls that occurred in both FCA8 and FCA9 are now a capacity surplus without any

actual change to the amount of generation resources participating in the capacity market. While that does mean new generation will not be necessary, it also means New England ratepayers will pay potentially billions of dollars more than they otherwise would have paid had the initial ICR targets been more accurate.

In a second December filing by ISO-NE submitted to FERC on December 17, 2015, the ISO indicates the existing possibility for undue market power to increase costs on ratepayers. Members of the New England delegation have expressed concerns about the potential for generators to exercise undue market power in these auctions for nearly two years. The filing requesting approval for changes to the retirement process for generation resources states "...the current FCM rules do not address the potential for a capacity supplier to exercise market power by retiring a resource prematurely in order to decrease supply, artificially increase prices and benefit the remainder of the supplier's portfolio." This is at least the second time the ISO itself has acknowledged this potential. Yet, unfortunately, these retirement reforms are only now being implemented.

Given these concerns, we would like your response to the following questions:

1. How can ISO-NE and FERC ensure the initial ICR generation target and modeling process used in forward capacity auctions is accurate and is not later changed between the auction date and the operating year?
2. In the retirement reform filing, ISO-NE acknowledged that current rules (through FCA10) do not sufficiently protect ratepayers. What spurred this acknowledgement from ISO? In the ISO's opinion, do previous auctions indicate market participants exercised undue influence harming ratepayers? If so, what avenues are available to remedy these artificial rate increases within both the ISO tariff and FERC?
3. How do forward capacity markets in New England incent development of alternative energy resources and distributed energy development? An alternative energy development project requires significant capital and financial certainty, and these types of projects are in need in New England given the rapid succession of older plants retiring. How does the FCM provide any long term certainty and benefit for both the generator and ratepayer if the FCM only accounts for a one-year operating period three years in advance?

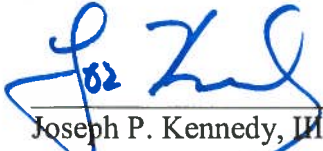
It is the obligation of FERC and the ISO to work together, along with the many other stakeholders involved in the process, to achieve electric reliability at just and reasonable rates. We do not believe the current forward capacity market in New England can be characterized as a functional, competitive energy market that meets these goals and protects consumers. Implementing incremental changes on a yearly basis as a byproduct of a transitioning energy sector do not justify drastic capacity rate increases. We also continue to question what exactly ratepayers are getting in return for these massive costs and whether capacity markets are the best construct to maintain electric reliability at just and reasonable costs all while achieving local, state, and regional energy policy goals.

The increased capacity prices beginning with FCA8 have not yet hit the ratepayers in New England, but they will soon. As such, we request your immediate consideration of our concerns

and urge action to engage local, state, and regional stakeholders to develop a better system for all parties involved.

Thank you for your consideration. We look forward to hearing from you.

Sincerely,



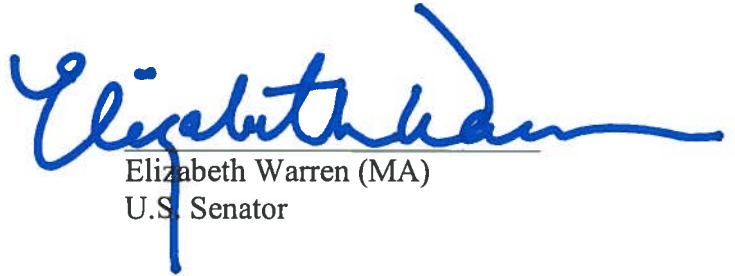
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Member of Congress



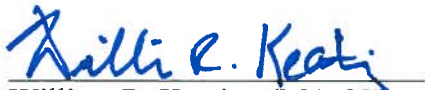
Edward J. Markey (MA)  
U.S. Senator



Richard E. Neal (MA-01)  
Member of Congress



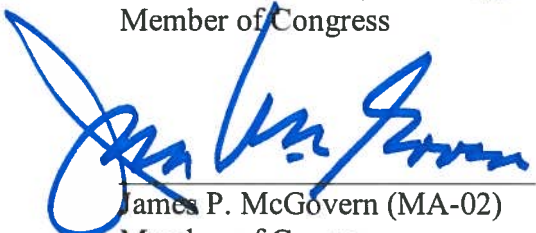
Elizabeth Warren (MA)  
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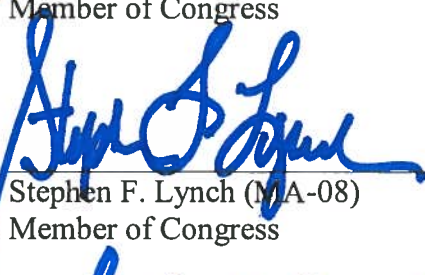
Bernard Sanders (VT)  
U.S. Senator



James P. McGovern (MA-02)  
Member of Congress



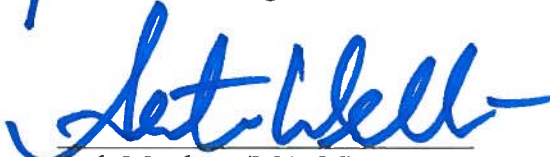
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Member of Congress



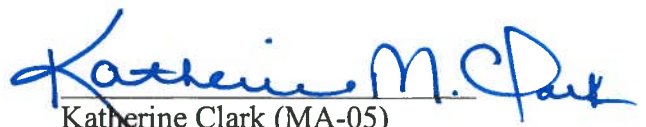
Stephen F. Lynch (MA-08)  
Member of Congress



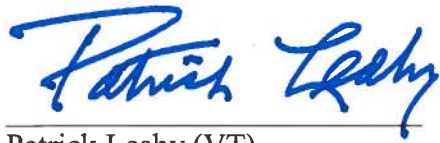
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Member of Congress



Patrick Leahy (VT)  
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Sheldon Whitehouse (RI)  
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Richard Blumenthal (CT)  
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Jack Reed (RI)  
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